

## Message Text

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ACTION EA-09

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PA-01

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 6657

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: ECRE, EFIN, OPEC, KS, XF

SUBJECT: SYNDICATION OF U.S. BANKS OF STANDBY GUARANTEE FOR  
KOREAN MIDDLE EAST CONSTRUCTION PROJECTS

REF: STATE 88294

1. RECHECK WITH SOURCES FOR KOREAN OVERSEAS CONSTRUCTION REPORTING INDICATES NO REPEAT NO SIGNIFICANT NEW DEVELOPMENTS IN TERMS OF PERSONNEL SHORTAGES OR OVEREXTENSION. INDUSTRY SOURCES EXPECT THAT \$1.2 BILLION 1976 GOAL FOR NEW CONTRACTS WILL BE DOUBLED RATHER THAN TRIPLED. THEY NOTE THAT HYUNDAI WAS LOWEST BIDDER ON TOTAL \$1. BILLION IN CONTRACTS FOR SAUDI COMMERCIAL AND IRANIAN NAVAL PORT CONSTRUCTION, BUT AWARDS HAVE NOT AS YET BEEN MADE. ROK CONSTRUCTION MINISTER KIM JAE-KYU VISITED SAUDI CONSTRUCTION MINISTER SHEIKH MUHMAD OMAR TAWFIK AT RIYADH ON APRIL 8 TO DISCUSS "EFFICIENT HANDLING OF LETTERS OF GUARANTEE" AND COMMUNIQUE ON THE VISIT REPORTEDLY PLEDGES THE TWO GOVERNMENTS TO TAKE A "PRACTICAL APPROACH" ON THE ISSUE.

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2. IN THE MEANTIME, CONVERSATIONS WITH BANKERS INVOLVED AND

PROSPECTUS PREPARED BY CITICORP IN FORMING SYNDICATE HAVE  
BROUGHT OUT THE FOLLOWING POINTS:

(A) THE SYNDICATION IS A ONE-TIME TRANSACTION UNDERTAKEN AS  
AN INTERIM MEASURE UNTIL SUCH TIME AS THE SAUDI GOVERNMENT AND  
FINANCIAL COMMUNITY DEVELOP CONFIDENCE IN KOREA EXCHANGE BANK  
(KEB) GUARANTEES;

(B) THE SYNDICATION IS NOT REPEAT NOT A LOAN IN ANY SENSE;

(C) AS THE SYNDICATED GUARANTEE IS STRUCTURED, FAILURE OF A  
KOREAN FIRM TO MEET THE CONDITIONS OF A PERFORMANCE GUARANTEE WOULD  
BE COVERED BY KEB FROM ITS OWN RESOURCES IN ALL BUT THE MOST  
EXTREME CASE, SINCE CALLING ON THE SYNDICATED GUARANTEE WOULD  
IRREPARABLY DESTROY KEB'S CREDIT STANDING;

(D) FEDERAL RESERVE GUIDANCE IN HANDLING ARRANGEMENT OF THIS  
NATURE IS APPARENTLY SUBJECT TO DIFFERENT INTERPRETATIONS, BUT  
SOME, IF NOT ALL, PARTICIPATING BANKS ARE COUNTING THEIR SHARE  
IN THE SYNDICATION AGAINST BOTH THEIR LEGAL LENDING LIMIT TO KEB  
AND THEIR SELF-IMPOSED TOTAL COUNTRY EXPOSURE CEILINGS; AND

(E) TO THE EXTENT THAT THE 2.4 PERCENT CHARGE FOR THE SYNDICATION  
IS AN ADDITIONAL COST TO THE KOREAN OVERSEAS CONSTRUCTION  
INDUSTRY, IT REPRESENTS A MARGINAL DISADVANTAGE TO KOREAN  
FIRMS SINCE THIS IS A HIGHER COST THAN THE INTERNATIONALLY  
WELL-REPUTED U.S. FIRMS WOULD HAVE TO PAY TO OBTAIN COMPARABLE  
BACKING FROM THE INTERNATIONAL FINANCIAL COMMUNITY.

3. PRESENT FINANCING COSTS BORNE BY KOREAN CONSTRUCTION FIRMS  
INCLUDE:

(A) BIDDING AND OPERATING COST LOANS FROM LIMITED FUNDS OF  
KOREAN EXIMBANK (WHERE AVAILABLE) AT 7 PERCENT, OR ALTERNATIVELY,  
FROM KEB OR SEVEN BANK MEMBERS OF KOREAN OVERSEAS CONSTRUCTION  
CO. AT LIBO PLUS 2 PERCENT (LIBO CURRENTLY AT ABOUT 6 AND TWELVE  
THIRTY SECONDS);

(B) 9.3 PERCENT QUARTERLY (ANNUAL RATE 1.2 PERCENT) FOR KEB  
GUARANTEE; AND  
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(C) 0.9 PERCENT FOR SAUDI REQUIRED "THIRD COUNTRY" OR  
MULTICOUNTRY GUARANTEE. THEREFORE, TOTAL INTEREST COSTS ARE  
APPROXIMATELY 11 PERCENT. CONSORTIUM WOULD RAISE THEM  
ANOTHER 1.5 PERCENT.

4. ROK FINANCE MINISTER RECENTLY BRIEFED CONSTRUCTION INDUSTRY  
ON THE U.S. CONSORTIUM AND DESCRIBED COST AS 1.5 PERCENT

PLUS "ALPHA" FOR AGENCY FEES AND HANDLING CHARGES. INDUSTRY  
BELIEVES COST IS EXCESSIVE TO THE SERVICE PROVIDED AND ASKED  
MINISTER IN EFFECT TO RENEGOTIATE THE CHARGES WITH CITICORP.  
CONTRACTORS REALIZE, OF COURSE, THAT UNTIL THE SAUDI REQUIREMENT  
IS LIFTED, THEY ARE "STUCK" WITH THE COST OF THE CONSORTIUM.  
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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Draft Date:** 19 APR 1976  
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**Disposition Authority:** izenbei0  
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